

May 11, 2004

To the Board of Directors
Southwest Barry County Sewer and Water Authority
Barry County, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of the Southwest Barry County Sewer and Water Authority for the year ended March 31, 2004, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. The consideration we gave to the internal control was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control that have come to our attention and, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements.

The following item is considered to be a reportable condition and not a material weakness.

Segregation of Duties

The Bookkeeper is currently responsible for preparing the deposits, and reconciling the bank statements. We understand that complete segregation of duties would be very difficult due to the small numbers of employees; however, the Authority could mitigate some of the risk related to cash collections by having all payments go directly to a bank lockbox. This would help facilitate adequate segregation of duties without requiring additional employees.

We would like to commend the Authority's finance staff on implementing a number of our recommendations. We noted a number of additional controls have been implemented to strengthen overall internal control related to cash receipts and disbursements.

We also noted the following items which are not reportable conditions, but we feel warrant your consideration.

Capitalization of Fixed Assets/Procurement of Bids

The Authority capitalizes all asset purchases over \$500 and requires bids for purchases above this amount. We noted some items below this threshold included in the Authority's capital asset accounts at March 31, 2004. We recommend that the Authority review the capital asset accounts on at least an annual basis to ensure that purchases are appropriately capitalized or expensed according to the capitalization policy.

Inventory

The Authority currently maintains an inventory of repair parts. This account is only adjusted when a physical inventory count is performed. No inventory counts were performed for the fiscal year ended March 31, 2004. The Authority should consider writing off the current inventory balance, and expensing future parts purchased. The balance of the inventory account is not significant, and the cost of performing an annual inventory count may outweigh the benefits received.

General Journal Entries

The Authority does not keep a hard copy of each general journal entry posted to the general ledger. Although journal entry detail is available, we recommend the general journal entries be printed and attached to supporting documentation, or the journal entry number noted on the source document, to minimize the risk of double posting or not posting an entry.

GASB 34 Reminder

The Government Accounting Standards Board has issued a major pronouncement that will drastically change the way the municipal financial statements look. For the Southwest Barry County Sewer and Water Authority, this pronouncement will be effective beginning April 1, 2004. Understanding the implications of this pronouncement is crucial. There are some short-term steps the Authority could take in the near future to begin preparations to implement the new reporting model. These would include:

- Attending a training seminar on GASB 34 that are being offered to provide an initial education about this change
- Review the current fixed asset listing, to remove obsolete or missing items (this may also be useful for insurance purposes, both in substantiating a property claim and for ensuring the appropriate limit of property insurance)

Our staff will be working with the finance department to develop a plan for implementation. In addition, our firm has developed training materials and tools to facilitate implementation. We would be happy to meet with the Board, at whatever time is convenient to you, to educate you about this new pronouncement and the impact it will have on the Authority, its staff, and its resources.

We would like to thank the Authority personnel for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC

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